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**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF USAID/INDONESIA'S  
TSUNAMI-RELATED HOUSING  
CONSTRUCTION ACTIVITIES  
IMPLEMENTED BY  
COOPERATIVE HOUSING  
FOUNDATION INTERNATIONAL**

AUDIT REPORT NO. 5-497-08-002-P  
January 31, 2008

MANILA, PHILIPPINES



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

January 31, 2008

**MEMORANDUM**

**TO:** USAID/Indonesia Director, Walter North

**FROM:** Acting Regional Inspector General/Manila, William S. Murphy /s/

**SUBJECT:** Audit of USAID/Indonesia's Tsunami-Related Housing Construction Activities Implemented by Cooperative Housing Foundation International (Audit Report No. 5-497-08-002-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments in Appendix II.

Based on our review of the Mission's comments, we determined management decisions have been reached for Recommendation Nos. 1 and 2. A determination of final action for both recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective actions.

I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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# SUMMARY OF RESULTS

In May 2005, the U.S. Government appropriated \$656 million to USAID for its Tsunami Recovery and Reconstruction Fund to assist the victims of the December 2004 earthquake and the resulting tsunami. From these funds, USAID/Indonesia budgeted \$62.3 million for its Transition from Camps to Communities Program, aimed at improving the ability of earthquake and tsunami victims in Aceh, Indonesia, to rapidly restore their communities and resume gainful economic activity. The transition activities focused on shelter, livelihoods, and related transition support. Of the \$62.3 million budget, \$11.5 million was allocated for permanent shelter activities (see page 2).

To assist in the provision of permanent shelter for thousands of internally displaced persons, on October 3, 2005, USAID/Indonesia awarded a \$10.6 million 2-year cooperative agreement to Cooperative Housing Foundation International (CHF) to implement the High Impact and Revitalization of the Economy of Aceh (HIRE-Aceh) program. The agreement included a \$6.2 million cost-sharing component to be generated by CHF from other donors, resulting in a total program budget of approximately \$16.8 million. A subsequent modification raised the USAID portion to \$11.5 million (see page 2).

As part of its fiscal year 2007 audit plan, the Regional Inspector General/Manila conducted this audit to determine whether USAID/Indonesia's tsunami-related housing construction activities being implemented by CHF were achieving planned results (see page 3). As of March 31, 2007, those activities were achieving planned results with the completion of 582 houses in accordance with CHF's revised construction schedule. Those houses provided shelter for 1,667 beneficiaries under the HIRE-Aceh program. Subsequent to the date of fieldwork, USAID/Indonesia reported that CHF had completed 842 of the total 1,000 houses planned for completion by September 30, 2007. USAID provided CHF with a no-cost extension until June 30, 2008, to finish the construction (see page 4). USAID/Indonesia's agreement with CHF was intended to support activities in three areas: construction of permanent houses, livelihoods restoration, and community economic infrastructure. However, because of cost inflation and construction delays, USAID/Indonesia modified its agreement with CHF to shift the focus of the agreement primarily to the construction of houses (see page 5).

The report made two recommendations to help the Mission achieve its objective of assisting earthquake-tsunami victims (see page 8). In its response to the draft report, USAID/Indonesia generally agreed with the findings and recommendations. Based on a review of the Mission's comments, the audit determined that management decisions have been reached for Recommendation Nos. 1 and 2. A determination of final action for both recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective actions (see page 9).

USAID/Indonesia's written comments on the draft report are included in their entirety as Appendix II to this report

# BACKGROUND

On December 26, 2004, the most powerful earthquake in 40 years struck in the Indian Ocean, 150 km off the coast of the Indonesian province of Aceh. Of the 12 nations struck by the resulting tsunami, Indonesia suffered the most, and the hardest hit was the Indonesian province of Aceh, where 130,000 people were confirmed dead and 37,000 missing. An additional 500,000 were displaced.

In response to this catastrophic event, in May 2005, the U.S. Government appropriated \$656 million to USAID, of which about \$400 million was provided to USAID/Indonesia for its Tsunami Recovery and Reconstruction Fund to assist the victims of the tsunami. From these funds, USAID/Indonesia budgeted \$62.3 million for its Transition from Camps to Communities, one of four program components supported by its tsunami reconstruction efforts. This program identified three fundamental types of transition activities with a goal of improving the ability of earthquake and tsunami victims in Aceh to rapidly restore their communities and resume gainful economic activity. These transition activities focused on shelter, livelihoods, and related transition support. Of the \$62.3 million budget, \$11.5 million was allocated for permanent shelter activities.

Rebuilding housing was a critical part of restoring hope and livelihoods in tsunami-affected areas of Indonesia, and the Government of Indonesia (GOI) placed a high priority on hastening housing construction to provide permanent shelter for thousands of internally displaced persons.

To help the GOI reach its shelter goals, on October 3, 2005, USAID awarded a 2-year, \$10.6 million cooperative agreement to Cooperative Housing Foundation International (CHF), which included a cost-sharing component of an additional \$6.2 million in matching funds to be generated from other donors, for a total program budget of approximately \$16.8 million. USAID's agreement with CHF was originally intended to support activities in three areas: the construction of 1,000 permanent houses, livelihoods restoration, and community economic infrastructure restoration (such as the reconstruction of public markets). Owing to higher material and labor costs affecting the pace of shelter reconstruction, however, USAID agreed in September 2006 that its grant would be solely devoted to shelter activities to maximize the number of houses built through its funding assistance. On March 8, 2007, USAID/Indonesia modified its agreement with CHF, increasing the U.S. Government's contribution to \$11.5 million.

As of March 31, 2007, USAID/Indonesia had obligated \$11.5 million and disbursed \$6 million to CHF for this project. USAID/Indonesia's Aceh Recovery and Reconstruction Office is responsible for managing the Aceh Recovery and Reconstruction Program, which includes the shelter activities.

## **AUDIT OBJECTIVE**

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2007 annual audit plan to answer the following question:

- Were USAID/Indonesia's tsunami-related housing construction activities being implemented by the Cooperative Housing Foundation International achieving planned results?

Appendix I contains a discussion of the audit's scope and methodology.

# AUDIT FINDINGS

As of March 31, 2007, USAID/Indonesia's tsunami-related housing construction activities being implemented by the Cooperative Housing Foundation International (CHF) were achieving planned results, with 582 houses completed in accordance with its revised construction schedule. As of that date, CHF had constructed 582 new houses as scheduled, providing shelter for 1,667 beneficiaries under the High Impact Revitalization of the Economy of Aceh (HIRE-Aceh) program. In addition, CHF had started construction on 108 new houses and expected to complete all of them by the end of June 2007.<sup>1</sup>



Photograph taken in the village of Kreung Tunong, showing a cluster of houses almost completed. (Office of Inspector General, May 2007)

Table 1, on the following page, shows the construction progress throughout the Aceh villages as of March 31, 2007.

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<sup>1</sup> Subsequent to the date of the fieldwork, USAID/Indonesia reported that CHF had completed 842 of the total 1,000 houses it had planned to complete by September 30, 2007. USAID provided CHF with a no-cost extension until June 30, 2008, to finish the construction.

**Table 1: Construction Status as of March 31, 2007**

Location (Village)	No. of Completed Houses	No. of Houses in Progress
Lambaro	46	
Meunasah Tutong	87	
Gle Jong	87	
Teumareum	99	
Babah le	59	
Darat	90	
Pulot	57	
Geumbak Meualon	57	3
Kreung Tunong		105
<b>Total</b>	<b>582</b>	<b>108</b>

USAID/Indonesia's agreement called for CHF to complete the construction of 1,000 houses by September 30, 2007. Under the cost-sharing arrangement, USAID/Indonesia would fund the construction of 800 houses and CHF would secure other donor funds for the construction of the remaining 200 houses. Throughout the agreement period, CHF revised the scheduled interim completion dates for construction because of a number of challenges regarding cost escalation and the ability to guarantee donor funding. As a result, CHF modified its original construction schedule, revising interim targets from its initial November 2005 work plan to reflect actual construction to date. Table 2 outlines the revised targets.

**Table 2: Revised Targets as of March 31, 2007**

Period of Construction	November 2005 Work Plan	February 2006 Work Plan	October 2006 Work Plan
Jan 1–Mar 31, 2006	100	20	0
Apr 1–Jun 30, 2006	150	200	22
July 1–Sep 30, 2006	150	239	278
Oct 1–Dec 31, 2006	160	165	282
Jan 1–Jun 30, 2007*	340	357	313
July 1–Sep 30, 2007	100	19	105
<b>Total</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

\*CHF did not complete construction of any houses between January 1 and March 31, 2007. Therefore, as of March 31, 2007, the total number of completed houses remained at 582, unchanged from December 31, 2006.

As mentioned above, CHF faced several challenging issues that affected its ability to meet the initial work plan schedule. The more significant issues were the following:

- CHF experienced cost increases for labor and materials, along with construction delays, which if continued would significantly affect its ability to construct the remaining number of houses required under the agreement.
- Although circumstances have changed significantly, CHF experienced delays at the beginning of its program in obtaining the donor funding needed to complete construction of the planned number of houses.



As a result of the above challenges, USAID/Indonesia modified its agreement with CHF by redirecting CHF's efforts to focus primarily on the construction of 1,000 houses, thereby shifting its focus away from the other two objectives, economic infrastructure and livelihood activities. This change in focus was attributed largely to rising construction costs.

Despite the completion of 582 houses as planned as of March 31, 2007, the program was not making its intended impact, because the audit disclosed that only 70 percent of the 114 physically inspected houses were occupied. If not dealt with, this issue could ultimately have a negative impact on the program. The occupancy issue is discussed in further detail below.

## **USAID Needed to Ensure That Program Realized Its Full Impact**

Summary: USAID/Indonesia's goal in constructing 1,000 new homes was to provide an estimated 5,000 beneficiaries an opportunity to return to a home. Although CHF had completed construction of 582 houses, not all the houses were occupied and benefiting the intended beneficiaries. Two factors contributed to the less than 100 percent occupancy rates; USAID/Indonesia had not required CHF to develop and enforce practical criteria for ensuring that intended beneficiaries were occupying the houses, and land entitlement issues created problems. As a result, some houses funded with foreign assistance dollars remained empty and at risk of vandalism, and were not providing shelter for the intended beneficiaries.

Rebuilding housing was a critical part of restoring hope and livelihoods in tsunami-affected areas of Indonesia, where the Government of Indonesia (GOI) identified the need for 128,000 houses in early 2006. In response to this crisis, construction of safe housing to facilitate the rapid return of internally displaced populations to appropriate living conditions was a central feature of the CHF's HIRE-Aceh program. With the construction of 1,000 new homes, an estimated 5,000 beneficiaries would be able to return to a home.

As of March 31, 2007, CHF had completed 582 houses; however, not all the houses were occupied and benefiting the intended beneficiaries.<sup>2</sup> During a field visit to Aceh, Indonesia, the Office of Inspector General audit team visited eight of the nine villages where CHF reported that the house construction was either in progress or fully completed. The audit team physically inspected 114 of the 582 completed houses and observed that 34 of the 114 inspected houses were vacant.

CHF was facing significant challenges in ensuring that houses handed over to beneficiaries in the villages of Pulot, Gle Jong, and Darat were occupied by the intended beneficiaries. Less than optimal housing occupancy was attributed to a variety of social and economic circumstances, including the following:

- BRR's definition of what constituted a beneficiary sometimes resulted in giving a house to a beneficiary who could not live in the house alone.
- A lack of services such as electricity and adequate water systems.

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<sup>2</sup> The Reconstruction and Rehabilitation Agency (BRR), a Government of Indonesia agency, defined the intended housing beneficiaries as tsunami victims who previously possessed a house.

- Individual preference to remain in existing barracks owing to close social ties, a situation particular to single mothers and orphans.
- Employment opportunities far from the housing sites.



Photograph of a vacant house in Babah le. The beneficiary is a male market vendor who is currently staying close to his place of business.  
(Office of Inspector General, May 2007)

BRR identified beneficiaries as victims or their heirs who will receive new housing to replace houses destroyed by the disaster. As a result, the BRR assigned some houses to (1) very minor children who lived with relatives and could not live alone and (2) widowers who moved away in order to be closer to their jobs or prospects of finding another wife. As a result, these houses remained unoccupied. USAID/Indonesia did not take exception to the houses being vacant when the intended beneficiaries fell into one of these two categories.

A second factor that could impair the effectiveness of the program in expeditiously providing permanent shelter to the intended beneficiaries was a land title dispute in Geumbak Meualon, where CHF had completed construction of 57 houses. CHF reported that a third party was claiming ownership of land upon which CHF had built houses under the agreement. CHF asserted that it undertook an exhaustive land ownership verification process and also had obtained BRR project authorization. However, new information from sources at BRR stated that the proclaimed owner of the land holds a land certificate dating back to 1926 and renewed in 1952. BRR now considers the beneficiaries throughout the area to be renters and squatters until the dispute is resolved. The outcome of this dispute could have a negative impact on the 197 beneficiaries that CFH reported as occupying the 57 houses. Since the land dispute issue in Geumbak Meualon is not within the direct control of the Mission, the Office of Inspector General makes no recommendation concerning this matter. However, it is suggested that the Mission continue to monitor and evaluate the situation and take appropriate actions.

The underlying impact of the above-mentioned factors is that houses funded by the U.S. Government are not serving the intended beneficiaries of this program. Furthermore, vacant houses are subject to vandalism and destruction. To help the Mission achieve its objective of assisting earthquake-tsunami victims, this report recommends the following:

***Recommendation No. 1:*** We recommend that USAID/Indonesia identify unoccupied houses that have been awarded to beneficiaries and require Cooperative Housing Foundation International to prepare a formal plan on how to ensure occupancy of the houses and protection of the property until they are occupied.

***Recommendation No. 2:*** We recommend that USAID/Indonesia review the current criteria for designation of beneficiaries to receive houses constructed by Cooperative Housing Foundation International. The review of beneficiary criteria should consider such issues as the ability of the beneficiary to occupy a house in a reasonable period, requiring the protection of the house until it is occupied, and the recertification of the beneficiary when that beneficiary is assigned a house more than 3 months in advance of completion.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to this draft report, USAID/Indonesia generally agreed with the findings and recommendations. Based on a review of the Mission's comments, the Office of Inspector General determined that management decisions have been reached for Recommendation Nos. 1 and 2.

In response to Recommendation No. 1, USAID/Indonesia reported that Cooperative Housing Foundation International agreed to prepare an updated occupancy plan, outlining how occupancy of all constructed houses will be ensured and reasonable measures to be taken to protect the completed houses prior to occupancy. The Mission expects to finalize and approve the plan by mid-February 2008. Regarding the land title dispute in Geumbak Meualon, the Mission stated that the issue was resolved, and as a result occupancy rates in Geumbak Meualon reached 92 percent as of September 30, 2007.

In response to Recommendation No. 2, USAID/Indonesia emphasized that the Mission is not responsible for establishing eligibility criteria for beneficiaries provided houses under the HIRE-Aceh program. However, after reviewing the current criteria, the Mission concluded that a change is not warranted. In addition, the Mission believes that its actions in response to Recommendation No. 1 will mitigate this issue. As part of the occupancy plan, consideration will be given to a designated beneficiary's ability to occupy a house within a specified period following notification of completion of construction.

To reach final actions on these recommendations, USAID/Indonesia will need to review and approve the occupancy plan to ensure that it meets the expected requirements.

A determination of final action for Recommendations Nos. 1 and 2 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the proposed corrective actions.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Indonesia's tsunami-related housing construction activities being implemented by Cooperative Housing Foundation International (CHF) were achieving planned results.<sup>3</sup>

On October 3, 2005, USAID/Indonesia awarded a 2-year, \$16.8 million cooperative agreement to CHF to implement tsunami-related housing construction activities. The amount of the award included USAID/Indonesia funding of \$10.6 million and \$6.2 million in matching donor funds to be generated by CHF. On March 8, 2007, USAID/Indonesia modified its agreement with CHF, approving an additional \$959,000 in funding and thereby increasing the U.S. Government contribution to \$11.5 million. As of March 31, 2007, USAID/Indonesia had obligated \$11.5 million and disbursed \$6 million to CHF.

Although the cooperative agreement provided for the delivery of outputs related to the construction of permanent shelters, livelihood restoration, and community economic infrastructure, the audit team focused on the permanent shelter construction component, a critical part of restoring hope and livelihoods in tsunami-affected areas.

The audit was performed in Jakarta and Aceh Province in Indonesia from April 30 through May 18, 2007. It covered CHF housing construction activities from October 3, 2005, through March 31, 2007, including significant ongoing issues related to the housing program.

Audit fieldwork was conducted at USAID/Indonesia and CHF offices in Jakarta and Banda Aceh, the office of the Government of Indonesia's Reconstruction and Rehabilitation Agency of Aceh and Nias (BRR) in Banda Aceh, and the UN-HABITAT<sup>4</sup> liaison office in Jakarta.

As part of the audit, the audit team assessed the significant internal controls that USAID/Indonesia used to manage its tsunami-related housing construction activities. The assessment included controls related to whether the Mission (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved CHF work plans, and (3) reviewed CHF progress reports. The audit also reviewed the Mission's annual self-assessment of internal controls in accordance with the Federal Managers Financial Integrity Act. Finally, the audit reviewed relevant prior audit reports, including those issued by the U.S. Government Accountability Office.

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<sup>3</sup> The audit of results was limited to outputs (a tangible, immediate, and intended product or consequence of an activity within USAID's control), which in this audit pertained to completed houses.

<sup>4</sup> UN-HABITAT is the United Nations' lead agency for human settlements development.

## Methodology

To answer the audit objective, the audit team interviewed officials and staff from USAID/Indonesia, CHF, BRR, and UN-HABITAT. In addition, the audit team reviewed and analyzed relevant documents at both the Mission and CHF. This documentation included annual work plans, the cooperative agreement and its modifications, site visit and other monitoring reports, progress reports, and financial reports and records.

To verify the accuracy and reliability of the reported performance data, the audit traced the 582 houses reported as completed to substantial completion reports and to the handover reports in accordance with the concept notes approved by BRR for a particular village. In addition, the audit traced completed individual houses from the master list maintained for each village by CHF to the supporting handover certificates. Finally, the audit judgmentally selected and examined 144 certificates issued to individual beneficiaries.

Furthermore, the audit team conducted site visits to eight of nine villages<sup>5</sup> where house construction was either in progress or fully completed, observed program activities, and examined the quality of the houses. The audit team physically inspected 114 houses and determined them to be substantially completed. In addition, the audit team interviewed house beneficiaries to assess their satisfaction with the quality of the houses and the adequacy of their utilities, such as water, septic, and electric systems.

The Office of Inspector General established the following materiality threshold criteria to measure progress on the tsunami-related housing construction activities:

- The audit objective would be met if 90 percent or more of the housing units planned to be completed were actually completed.
- The audit objective would be partially met if less than 90 percent but not less than 70 percent of housing units planned to be completed were actually completed.

The audit objective would not be met if less than 70 percent of housing units planned to be completed were actually completed.

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<sup>5</sup> The bridge leading to the village of Teumareum was not safe for vehicle traffic; therefore, the site visit to this village was cancelled.

# MANAGEMENT COMMENTS



December 28, 2007

## MEMORANDUM

**TO:** Catherine Trujillo, RIG/Manila

**FROM:** Walter North, Mission Director /s/

**SUBJECT:** Mission Comments to the Draft Report on Audit of USAID/Indonesia's Tsunami-Related Housing Construction Activities Implemented by Cooperative Housing Foundation, International (Audit Report No. 5-497-08-00X-P)

USAID/Indonesia is pleased to provide the following comments on the above-referenced draft audit report.

### **I. General Comment:**

The USAID High Impact Revitalization of the Economy of Aceh (HIRE-Aceh) Program, implemented through cooperative agreement with CHF International is an essential component of the U.S. Government's Tsunami Recovery and Reconstruction program in Indonesia. USAID/Indonesia works to ensure that the program achieves its intended results within the program funding level and schedule, as revised. As acknowledged by RIG in the draft audit report, the program is achieving planned results. Given the approximate 8 (eight) months period between the audit and the preparation of the draft report, USAID/Indonesia wishes point out, however, that significant additional progress has been achieved that is not reflected in the report. The number of houses fully constructed as of December 31, 2007 was 842.

### **II. Mission Response to Draft Audit Recommendations:**

**A. Draft Recommendation No. 1:** The first recommendation in the draft report states: "*We recommend that USAID/Indonesia, identify unoccupied houses that have been awarded to beneficiaries and require*

*Cooperative Housing Foundation International to prepare a formal plan on how to ensure occupancy of the houses and protection of the property until they are occupied.”*

**Mission Response to Draft Recommendation No. 1:** USAID/Indonesia agrees with this recommendation. When this problem was brought to the Mission’s attention, both USAID and CHF immediately started to identify corrective measures. As of this date, in collaboration with CHF, the Mission has identified all unoccupied houses constructed under the HIRE-Aceh Program. Additionally, CHF has agreed to prepare an updated occupancy plan for USAID/Indonesia’s review and approval. The plan would outline: 1) how occupancy of all houses constructed under the program will be ensured; and 2) the reasonable measures to be taken to protect the completed houses prior to occupancy. The draft plan should be completed by the end of January 2008 and is being developed with input from the USAID Cognizant Technical Officer (CTO). The final plan, as approved by USAID/Indonesia, should be completed by mid-February 2008. The Mission will ensure that RIG receives a copy of the final plan.

We are also pleased to report that the land title dispute in Geumbak Meualon, cited as an issue that potentially threatened the achievement of program results in the draft report, was resolved by the *Badan Rehabilitasi dan Rekonstruksi* (BRR), the Government of Indonesia’s Aceh and Nias Reconstruction Agency. The Mission’s view is that CHF International worked diligently and effectively, through appropriate GOI channels, to support the resolution of this land dispute. As a result of the work of BRR and CHF International, CHF reported that occupancy rates for HIRE-Aceh program houses in Geumbak Meualon reached 92% as of September 30, 2007.

**B. Draft Recommendation No. 2:** The second recommendation in the draft report states: *“We recommend that USAID/Indonesia review the current criteria for designation of beneficiaries to receive houses constructed by Cooperative Housing Foundation International. The review of beneficiary criteria should consider such issues as the ability of the beneficiary to occupy a house in a reasonable period, requiring the protection of the house until it is occupied, and the recertification of the beneficiary when that beneficiary is assigned a house more than 3 months in advance of completion.”*

**The Mission Response to Draft Recommendation No. 2:** First, the Mission wishes to emphasize that the GOI, not USAID or CHF International, is responsible for establishing criteria to identify eligible beneficiaries for houses under the HIRE-Aceh program. As CHF progressed with construction of houses, CHF made it clear to USAID that it was adhering to the GOI’s (BRR) criteria for selection of beneficiaries. USAID concluded that the GOI’s criteria for selection of beneficiaries is sound and does not warrant change. The Mission’s view is that CHF is responsible for determining a designated beneficiary’s ability to occupy a house within a reasonable period following notification of selection, as well as determining whether beneficiary re-certification is needed.



Specifically, as noted in our response to draft Recommendation No. 1, CHF International has agreed to develop, with assistance from the USAID CTO, an improved plan that outlines procedures to ensure occupancy of houses as well as protection of houses between completion of construction and occupancy. This will include consideration of a designated beneficiaries ability and commitment to occupy a house within a specified period following notification of completion of construction.

Thank you for the opportunity to comment on the draft audit report.

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